



## State of New Jersey

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**SHOAIB KHAN**  
*Director*

January 26, 2024

MEMORANDUM TO: State Investment Council

FROM: Shoaib Khan  
Director

SUBJECT: **Real Estate Investment: KSL Capital Partners Tactical Opportunities Fund II, L.P.**

The Division of Investment (the “Division”) is proposing an investment of up to \$150 million into KSL Capital Partners Tactical Opportunities Fund II L.P. (the “Fund”). This memorandum is presented to the State Investment Council (the “Council”) pursuant to N.J.A.C. 17:16-69.9.

The Division is recommending this investment based on the following factors:

### **Deploy Capital Opportunistically in a Dislocated Market to Earn Attractive Risk-Adjusted Returns**

The Fund’s strategy enables the Division to capitalize on credit dislocation to earn near-equity returns through more senior positions in the capital stack. The current market environment offers an attractive entry point for a manager with operating experience to identify and create value.

### **Cohesive and Seasoned Management and Investment Team**

KSL Capital Partners (“KSL” or the “Firm”) has substantial expertise in the travel and leisure industry. Members of the Management Committee have worked together extensively in a number of capacities, with an average 28 years of industry experience and 18 years tenure with the Firm and its predecessor. The Firm is recognized as a “best-in-class” owner/operator of hotel and leisure assets. The Firm has limited turnover.

### **Differentiated Investment Strategy and Platform**

The Firm is the only pure-play manager in the sector that has institutional scale. KSL’s proven ability to reposition assets and build platforms through multiple channels differentiates the Firm from other managers. The team’s prominence often provides an advantage when sourcing opportunities as sponsors view the Firm as a partner and solution provider rather than just a capital source.

### **Strong Performance in all Phases of the Market Cycle**

The Firm has successfully invested across multiple market cycles, achieving attractive returns in both strong and challenging markets. The Firm has generated a cumulative 1.8x gross MOIC across the equity fund series and 1.3x gross MOIC across the credit fund series as of 9/30/2023. The Tactical Opportunities strategy draws from the strengths of the Firm's equity and credit teams and provides the Fund with a competitive advantage.

A report of the Investment Policy Committee ("IPC") summarizing the details of the proposed investment is attached.

Division Staff and its real estate consultant, Hamilton Lane, undertook extensive due diligence on the proposed investment in accordance with the Division's Alternative Investment Due Diligence Procedures.

As part of its due diligence process, staff determined that the Fund has not engaged a third-party solicitor ("placement agent").

In accordance with the State Investment Council's Environmental, Social and Governance ("ESG") Policy, the Division's Corporate Governance Team completed its review of KSL Capital Partners ESG efforts. KSL adopted its Responsible Investment Policy in 2018; the policy is reviewed at least annually. The Firm is a signatory to the Principles of Responsible Investment (PRI) and considers many other industrial organizations for emerging best practices. Investment teams leverage a proprietary ESG questionnaire that include SASB standards and TCFD framework. The Firm requires that borrowers also complete this questionnaire when lending capital. Portfolio company board meetings are held quarterly in which ESG matters are a standing agenda item.

Staff will work with representatives of the Division of Law and outside counsel to review and negotiate specific terms of the legal documents to govern the investment. A preliminary Disclosure Report of Political Contributions has been obtained in accordance with the Council's regulation governing political contributions (N.J.A.C. 17:16-4) and no political contributions have been disclosed. An updated Disclosure Report will be obtained at the time of closing.

Note that the investment is authorized pursuant to Articles 69 and 71 of the Council's regulations. KSL Capital Partners Tactical Opportunities Fund II. is considered a non-core real estate investment, as defined under N.J.A.C. 17:16-71.1.

A formal written due diligence report for the proposed investment was sent to each member of the IPC, and a meeting of the IPC was held on October 18, 2023. An update was sent to each member of the IPC and presented at a meeting on January 23, 2024. In addition to the formal written due diligence report, all other information obtained by the Division on the investment was made available to the IPC.

We look forward to discussing the proposed investment at the Council's January 31, 2024 meeting.

Attachment

## KSL Capital Partners Tactical Opportunities Fund II

- **Commitment:** Up to \$150 million
- **Strategy:** Non-Core Real Estate
- **Investment Focus:** The fund specializes in real estate-related assets within the travel and leisure industries, primarily in hotels and resorts in the U.S. The fund mandate ranges from opportunistic debt to equity-linked investments.
- **Target Returns:** 13-15% net returns
- **Fund Size:** \$1 billion
- **Investment Thesis:**
  - Deploy capital opportunistically in a disrupted market to earn attractive risk-adjusted returns
  - Cohesive and seasoned management and investment team
  - Differentiated investment strategy and platform
  - Strong performance in all phases of the market cycle

Fund Name: KSL Capital Partners Tactical Opportunities Fund II, L.P.

January 26, 2024

Contact Info: Ana Goizueta, 100 St. Paul Street, Suite 800 Denver, CO 80206

Fund Details:

Total Firm Assets:	\$21 billion	<b>Key Investment Professionals:</b> <b>Eric Resnick:</b> Mr. Resnick is the Chief Executive Officer and co-founded KSL Capital Partners in 2005. He had previously co-founded KSL Resorts and became Chief Financial Officer of that company after the sale of KSL Recreation in 2004. Mr. Resnick joined KSL Recreation in January 2001 and served as Vice President, Strategic Planning and Investor Relations. <b>Steven Siegel:</b> Mr. Siegel is Partner and Chief Operating Officer. He joined KSL Capital Partners in March 2005 as one of the founding members of the firm after serving as outside counsel to the predecessor firm since 2002. <b>Peter McDermott:</b> Mr. McDermott is Partner and Chief Investment Officer. He was one of the founding members of the firm. He joined KSL Recreation in July 2003 and served as Director of Acquisitions and Corporate Finance through April 2004. He served in the same position at KSL Resorts following the sale of KSL Recreation. <b>Craig Henrich:</b> Mr. Henrich is Partner and Head of Capital Solutions. Mr. Henrich joined KSL in February 2011 and was a founding member of KSL's Credit Funds and the Existing Tac Opps Funds. Mr. Henrich joined KSL from CW Capital Investments, LLC, and prior to that was an 11 year veteran of Deutsche Bank/RREEF and its predecessor Bankers Trust. <b>Daniel Rohan:</b> Mr. Rohan is Partner and Head of Tactical Opportunities. He joined KSL in June 2006. Mr. Rohan's primary coverage sectors have included hospitality, aviation and distressed credit. Prior to joining KSL, he was an associate with Starwood Capital Group. <b>Hal Shaw:</b> Mr. Shaw is a Partner at KSL. He joined KSL as a Summer Associate in 2007 with the Private Equity Team. During his time at KSL, Mr. Shaw has invested across the capital structure ranging from mezzanine and senior debt originations to acquisitions and has played a lead role in the formation and subsequent growth of KSL's Capital Solutions strategy. <b>Mike Acierno:</b> Mr. Acierno is a Principal on KSL's Tactical Opportunities investment team. He joined KSL Capital Partners in 2014 as an Associate with the Private Equity Deal Team. Prior to KSL, Mr. Acierno was an Investment Banking Analyst in Citigroup's Real Estate & Lodging division.
Strategy:	Opportunistic Real Estate	
Year Founded:	2005	
Headquarters:	Denver, CO	
GP Commitment:	1.5% of commitments up to \$15 million	

Investment Summary

KSL Capital Partners Tactical Opportunities Fund II (the "Fund") is a closed ended commingled fund sponsored by KSL Capital Partners. The Fund will invest exclusively within the travel and leisure industries. The Fund is expected to primarily invest in hotels and resorts located in the United States. The Fund's opportunistic debt mandate enables it to invest in debt or debt-like instruments, equity linked securities (such as options or warrants) and equity securities (preferred or common). The Fund will deploy capital in dislocated markets to earn attractive risk-adjusted returns and has the benefit of a strong, seasoned management and investment team that has delivered strong performance in all phases of the market cycle.

Existing and Prior Funds

Funds	Vintage Year	Strategy	Returns as of 9/30/2023
Fund II	2006	Opportunistic	14.8% Net IRR; 1.80x MOIC; 1.80x DPI
Fund II Supp	2009	Opportunistic	24.4% Net IRR; 2.13x MOIC; 2.13x DPI
Fund III	2011	Opportunistic	9.0% Net IRR; 1.32x MOIC; 1.00x DPI
Fund IV	2015	Opportunistic	15.4% Net IRR; 1.72x MOIC; 0.85x DPI
Fund V	2019	Opportunistic	17.8% Net IRR; 1.39x MOIC; 0.32x DPI
Fund VI	2023	Opportunistic	NM Net IRR; 0.65x MOIC; 0.00x DPI
Credit Fund I	2013	Performing Credit	14.4% Net IRR; 1.37x MOIC; 1.37x DPI
Credit Fund II	2017	Performing Credit	12.1% Net IRR; 1.23x MOIC; 0.56x DPI
Credit Fund III	2021	Performing Credit	17.8% Net IRR; 1.16x MOIC; 0.20x DPI
Tactical Opportunities I	2021	Opportunistic	21.1% Net IRR; 1.20x MOIC; 0.12x DPI

Source of Returns - KSL Capital Partners

IRR = Internal Rate of Return; TVPI = Total Value to Paid-In; DPI = Distributions to Paid-In

Vehicle Information:

Inception:	2023	Auditor:	Deloitte LLP
Fund Size :	\$1 billion (\$1.25 billion hard cap) 0.75% on undrawn capital commitments plus 1.50% on net invested capital	Legal Counsel:	Simpson Thacher & Bartlett LLP
Management Fee:	during the Investment Period. 1.5% on net invested capital after the Investment Period.		
Incentive Fee:	20% with a 8% Preferred Return		
Additional Expenses:	100% Management Fee Offset		

NJ AIP Program

Recommended Allocation (Smil.):	up to \$150 million	LP Advisory Board Membership:	YES
% of Fund:	12.00%	Consultant Recommendation:	YES
		Placement Agent:	NO
		Compliance w/ Division Placement Agent Policy:	N/A
		Compliance w/ SIC Political Contribution Reg:	YES

\*This review memorandum was prepared in accordance with the State Investment Council rules governing the Alternatives Investment Program and the policies and procedures related thereto.